

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

VISTO CORPORATION,

No. C-04-0651 EMC

Plaintiff,

**ORDER DENYING DEFENDANT'S  
MOTION FOR ATTORNEY'S FEES**

v.

SPROQIT TECHNOLOGIES, INC.

**(Docket No. 247)**

Defendant.

On October 4, 2006, this Court granted Plaintiff Visto Corporation's motion to dismiss based on the covenant not to sue it extended to Defendant Sproqit Technologies, Inc. Subsequently, Sproqit moved for attorney's fees pursuant to 35 U.S.C. § 285. Having reviewed the parties' briefs and accompanying submissions, the Court hereby **DENIES** Sproqit's motion for fees.<sup>1</sup>

**I. DISCUSSION**

In patent actions, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. Sproqit argues that it is a prevailing party and that this was an exceptional case because Visto's infringement claims were brought in bad faith and were objectively baseless.

<sup>1</sup> The Court grants both Visto's motion for leave to file a sur-reply and its request for judicial notice. See Docket No. 254 and 257.

1 A. Prevailing Party

2 Visto challenges Sproqit's assertion that it is a prevailing party for purposes of § 285.  
3 Whether a party is a prevailing party under the statute depends on whether the party obtains some  
4 relief on the merits. *See Motorola, Inc. v. Hazeltine Research, Inc.*, No. 88 C 4663, 1990 U.S. Dist.  
5 LEXIS 12769, at \*3-4 (N.D. Ill. Sept. 24, 1990) (concluding that "the cases which have construed  
6 the term 'prevailing party' under 42 U.S.C. § 1988 are instructive as to the definition of that term  
7 under 35 U.S.C. § 285" -- *i.e.*, a "'prevailing party' is one who receives 'at least some relief on the  
8 merits of his claim,' and thus can be said to have 'obtained the substance of what he sought'").  
9 Here, Sproqit obtained a dismissal with prejudice of Visto's infringement claims. Accordingly,  
10 Sproqit is a prevailing party.

11 The fact that the Court dismissed the claims only as a result of Visto's covenant not to sue is  
12 not relevant. In a recent opinion, the Federal Circuit confirmed that an alleged infringer can be a  
13 prevailing party under § 285 even when the dismissal comes about because the patentholder  
14 extended a covenant not to sue. *See Highway Equip. Co. v. FECO, Ltd.*, Nos. 05-1547, 05-1578,  
15 2006 U.S. App. LEXIS 28740, at \*21 (Fed. Cir. Nov. 21, 2006) (stating that that an alleged  
16 infringer's prevailing party status "is sufficiently based on [the patentholder's] having filed a  
17 covenant not to sue with the court to end the litigation, resulting in a dismissal with prejudice").

18 Visto maintains still that Sproqit is not a prevailing party because Visto only extended the  
19 covenant not to sue because Sproqit was a defunct business and stopped making any infringing  
20 products. The Court is not persuaded by this argument. First, Visto's motive for the covenant not to  
21 sue is debatable. Arguably, the covenant not to sue was issued at least in part because the litigation  
22 was not proceeding as Visto had hoped, with the Court denying Visto's motion for preliminary  
23 injunction and subsequently construing at least some terms unfavorably to Visto. Second, and more  
24 important, in *Highway*, the Federal Circuit did not indicate that a party's motive for giving a  
25 covenant not to sue is relevant to determining whether the other party is a prevailing party. The  
26 critical point in *Highway* is that where a plaintiff dismisses its suit with prejudice, the defendant is a  
27 prevailing party. *See id.* at \*20-21 ("[A]s a matter of patent law, the dismissal with prejudice, based  
28 on the covenant and granted pursuant to the district court's discretion under Rule 41(a)(2), has the

1 necessary judicial imprimatur to constitute a judicially sanctioned change in the legal relationship of  
 2 the parties, such that the district court properly could entertain [the defendant's] fee claim under 35  
 3 U.S.C. § 285."). The Court therefore turns to the question of whether this is an "exceptional case"  
 4 for which attorney's fees may be awarded under § 285.

5 B. Exceptional Circumstances

6 As a preliminary matter, the Court notes that the use of the term "exceptional" in § 285 is not  
 7 to be taken lightly. "[T]he term . . . is generally defined as 'forming an exception,' 'being out of the  
 8 ordinary,' 'uncommon' or 'rare.'" *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v Dana Corp.*,  
 9 372 F. Supp. 2d 833, 848 (E.D. Va. 2005). "Congress in choosing to limit district court authority to  
 10 award attorney's fees to 'exceptional' cases has made clear that this should occur only in rare or  
 11 extraordinary cases. And courts elucidating this statutory language have generally found that  
 12 'exceptional' cases are those rare or extraordinary cases blighted and marked by a party's bad faith  
 13 or inequitable conduct." *Id.* at 851; *see also Aventis Cropscience, N.V. v. Pioneer Hi-Bred Int'l*,  
 14 *Inc.*, 294 F. Supp. 2d 739, 743 (M.D.N.C. 2003) ("In imposing this limit [to exceptional cases],  
 15 Congress expressed a desire to curtail attorney fees litigation to rare or unusual circumstances."). In  
 16 other words, an exceptional case is one in which there is some egregious action by a party such that  
 17 fees must be awarded to the other party in order to prevent a gross injustice. *See FieldTurf Int'l, Inc.*  
 18 *v. Sprinturf, Inc.*, 433 F.3d 1366, 1373 (Fed. Cir. 2006) ("We do not discern the egregious action  
 19 required by precedent to support fee-shifting."); *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324,  
 20 1329 (Fed. Cir. 2003) (stating that §285 is an exception to the American Rule concerning attorney  
 21 fees and is "limited to circumstances in which it is necessary to prevent 'a gross injustice'"); *see*  
 22 *also Continental Art Co. v Bertolozzi*, 232 F.2d 131, 134 (7th Cir. 1956) (noting that attorney's fees  
 23 should be not be awarded in an "ordinary and typical patent infringement suit").

24 "A case may be deemed exceptional when there has been some material inappropriate  
 25 conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct  
 26 in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that  
 27 violates Fed. R. Civ. P. 11, or like infractions." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*,  
 28 393 F.3d 1378, 1381 (Fed. Cir. 2005). "Absent misconduct in conduct of the litigation or in

1 securing the patent, sanctions may be imposed against the patentee only if both (1) the litigation is  
2 brought in subjective bad faith, and (2) the litigation is objectively baseless.” *Id.*

3 A party seeking an award of fees under § 285 must establish the predicate conduct by clear  
4 and convincing evidence. *See Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327 (Fed. Cir.  
5 2003) (“[A] district court must determine whether the prevailing party has proved by clear and  
6 convincing evidence that the case is ‘exceptional.’”). This high standard of proof has particular  
7 resonance in cases, like the one here, where an alleged infringer seeks attorney’s fees after the  
8 patentholder has extended a *Super Sack* covenant not to sue. If fees are too readily awarded under §  
9 285 when a patentholder extends a covenant not to sue resulting in dismissal of the case, then such  
10 covenants and the beneficial economies and finality attendant thereto might be unduly discouraged.

11 In the instant case, Sproqit does not claim that there was material misconduct by Visto in the  
12 conduct of this litigation or in securing the patents at issue. Rather, Sproqit contends only that the  
13 infringement claims were brought in bad faith and were objectively baseless.

14 At the hearing on Sproqit’s fee motion, the issue of whether Visto’s infringement claims  
15 were brought in bad faith was hotly contested. Sproqit argued bad faith based on, *inter alia*, that  
16 Visto’s unsuccessful attempts to acquire Sproqit spurred this lawsuit. It also argues the timing of the  
17 *Super Sack* covenant not to sue (before the Court could issue a final claim construction ruling) was  
18 intended to prevent an anticipated adverse ruling. Visto argues that the lawsuit against Sproqit was  
19 simply part of a broader effort to protect its intellectual property; entities other than Sproqit had and  
20 have been sued, with a verdict having been rendered in its favor in one case in Texas. Moreover,  
21 Visto asked to have the case dismissed even before the claim construction hearing was held, once it  
22 learned that Sproqit was no longer in business. The Court, however, need not make any conclusions  
23 about subjective bad faith on the part of Visto, because Sproqit must demonstrate both subjective  
24 bad faith *and* objective baselessness. The Court finds that Sproqit has failed to meet its burden of  
25 demonstrating by clear and convincing evidence that Visto’s infringement claims were objectively  
26 baseless.

27 According to Sproqit, Visto’s claims of infringement were objectively baseless because  
28 Visto knew or should have known that Sproqit’s system does not practice certain limitations found

1 in the claims at issue. In its brief, Sprokit focuses specifically on Visto's allegedly unreasonable  
 2 construction of the patent terms "workspace element," "independently modifiable copy," "version  
 3 information," and "examination results." See Mot. at 6. The question of infringement *vel non* turns  
 4 largely upon the construction of these and other terms.

5 The standard for demonstrating objective baselessness is a rigorous one under § 285. See  
 6 *Bicon, Inc. v. Straumann Co.*, 356 F. Supp. 2d 6, 8 (D. Mass. 2005) (indicating that only when an  
 7 issue is "so one-sided," fees could be awarded); *Multi-Tech, Inc. v. Components, Inc.*, 708 F. Supp.  
 8 615, 620 (D. Del. 1989) (finding a lawsuit frivolous because "intelligent people should have known  
 9 [it] would have no chance at success"); *Kaehni v. Diffraction Co.*, 342 F. Supp. 523, 536 (D. Md.  
 10 1972) (awarding fees in part because "[t]he infringement question in this case is not close enough as  
 11 to be a matter upon which informed, reasonable counsel might differ; nor is it close enough as to be  
 12 a matter upon which scientifically-informed, reasonable men might differ"); cf. *B. Braun Med., Inc.*  
 13 *v. Abbott Labs.*, 124 F.3d 1419, 1429 (Fed. Cir. 1997) (upholding the district court's decision to  
 14 deny fees to alleged infringer because, *inter alia*, patentholder "presented a plausible though  
 15 untenable argument as to why [a] limitation . . . was met by [the accused product]").

16 Visto's asserted constructions of these terms were not so outside the realm of possibility that  
 17 they could be deemed frivolous and "entirely without merit." *Kor-CT*, 2005 U.S. Dist. LEXIS 4728,  
 18 at \*4; see also *Haynes Int'l v. Jessop Steel Co.*, 8 F.3d 1573, 1580 (Fed. Cir. 1993) (declining to  
 19 award fees because the court could not say that the positions advanced by the party against whom  
 20 fees were sought were frivolous even though "notably weak"). The meaning of these terms is hardly  
 21 self evident; there is room for substantial ambiguity. Moreover, the constructions favored by Visto  
 22 with respect many of the disputed terms -- *i.e.*, "workspace element," "independently modifiable  
 23 copy," "version information," and "examination results" -- were, if not identical, arguably consistent  
 24 with the constructions previously given by Judge Ward in the Eastern District of Texas. See *Visto*  
 25 *Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW (E.D. Tex.).<sup>2</sup>

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 28 <sup>2</sup> A copy of Judge Ward's claim construction order can be found in this case at Docket No. 101  
 (Exhibit A to the Khaliq declaration).

1 Sproqit points out that, in the Texas litigation, Visto argued that a “copy” of a workspace  
2 element does not have to be an exact copy of the workspace element but that Judge Ward rejected  
3 that argument and instead simply determined that a “copy” of a workspace element does not have to  
4 be in the same format as the workspace element. According to Sproqit, Judge Ward implicitly  
5 rejected Visto’s argument that the copy does not have to be an exact copy of the workspace element,  
6 yet Visto nonetheless continued to argue this point to this Court. *See id.* But as this Court held in its  
7 prior order, Judge Ward’s construction is not binding on this Court, *see* Order of 8/4/2006, at 4-6,  
8 and thus Visto was free to argue otherwise. Moreover, as this Court pointed out, Judge Ward did not  
9 address the precise question here. The issue was open to debate.

10 In any event, Sproqit’s argument misses a larger point. Even if Visto’s construction of the  
11 term “copy” were without merit and deemed unreasonable, the Court could have adopted a  
12 construction of “workspace element” that would permit an ultimate finding of infringement. For  
13 example, if a portion of an e-mail could be considered a “workspace element,” then there might still  
14 be infringement even if the term “copy” were construed to require an exact copy (format differences  
15 aside). In fact, while the Court’s tentative construction on the term “workspace element” was not  
16 entirely favorable to Visto, neither was it entirely unfavorable. Sproqit has not shown that under the  
17 Court’s tentative construction of “copy” and “workspace element,” Visto had no chance of success  
18 in proving infringement.

19 Furthermore, even if the Court’s claim construction made Visto’s claims for literal  
20 infringement difficult or even impossible, Visto still could have asserted infringement by  
21 equivalents. “[J]ust as parties to a tort case might differently assess how a hypothetical ‘reasonable  
22 person’ would or should resolve the question of negligence, parties in patent litigation can  
23 legitimately differ over what an objective skilled practitioner would regard as equivalent.” *Bicon*,  
24 356 F. Supp. 2d at 8. While counsel for Sproqit suggested at the oral argument that doctrine of  
25 equivalents might not apply depending, *e.g.*, upon the content of the prosecution history, Sproqit has  
26 failed to show by clear and convincing evidence that the doctrine would not have been viable here.  
27 Indeed, the Court notes that in responding to the Court’s tentative construction of “workspace  
28 element,” Sproqit alluded to the doctrine of equivalents as a way of accommodating the Court’s

1 skepticism of Sproqit's proposed construction. *See* Docket No. 203 (Sproqit's second supplemental  
2 memorandum on claim construction) (arguing that Court's concern regarding the proper  
3 construction of "workspace element" was more of a doctrine-of-equivalents issue).

4       Given the vagaries often inherent in the claims construction process, it appears to be the  
5 exception, and not the rule, for a court to find terms of a patent so obvious on its face, and thus the  
6 construction offered by a party so obviously unreasonable, that sanctions under § 285 would be  
7 warranted. *See, e.g., Fantasy Sports Props. v. Sportsline.com, Inc.*, 287 F.3d 1108, 1116, 1120 (Fed.  
8 Cir. 2002) (concluding that district court properly denied fees to Yahoo! under § 285 because, *inter*  
9 *alia*, "Yahoo! has failed to demonstrate that Fantasy's proposed construction of the 'bonus points'  
10 limitation as including additional points for distance scoring and total yardage was unreasonable");  
11 *E.I. Dupont De Nemours & Co. v. Monsanto Co.*, 903 F. Supp. 680, 719 (D. Del. 1995) (denying  
12 fees sought by alleged infringer under § 285 because patentholder's construction of patent claims  
13 "was plausible").

14       The Court acknowledges that Sproqit has cited three cases in which a court did award fees  
15 under § 285 because the party's construction of a claim was frivolous. However, they are all  
16 distinguishable.

17       In *CellNet Data Systems, Inc. v. Itron, Inc.*, No. C-97-20396 EAI (N.D. Cal. 2001), the court  
18 specifically provided that the order granting fees was not for publication. More importantly, in that  
19 case, the court found that the construction was frivolous because it "was strained, unsupported in  
20 fact or reason, and contradictory to the plain language of the claims and the specification." *Id.* at 9.  
21 That is not case here.

22       In another case cited by Sproqit, the award of fees was vacated by the Federal Circuit  
23 because the district court had erred in its claim construction, which was integral to its award of fees.  
24 *See Rambus, Inc. v. Infineon Techs. AG*, 115 F. Supp. 2d 668, 676 (E.D. Va. 2001) (finding a party  
25 accountable for fees because its construction was directly at odds with the intrinsic evidence, in  
26 particular, the claims and written descriptions); *Rambus, Inc. v. Infineon Techs. AG*, 318 F.3d 1081,  
27 1106-07 (Fed. Cir. 2003) (noting that district court had erred in its claim construction and thus  
28 vacating the grant of judgment as a matter of law of noninfringement; also vacating fee award).



Moreover, the district court had awarded fees largely because the party's "view of the patents was completely untethered to the language of the patent claims or the written description, and, in many cases, flatly contradicted the written description." *Rambus*, 115 F. Supp. at 676. As noted above, that is not the case here.

Finally, *Multi-Tech*, 708 F. Supp. at 615, is distinguishable from the instant case. There, a "well-documented prosecution history. . . indicate[d] unequivocally that [certain] materials were excluded from the scope of the patent." *Id.* at 622. Again, that is not the case here. In the arguments on claim construction, neither party cited anything material in the prosecution history. Their arguments were based on the claim language and specifications.

Accordingly, the Court finds that, in the instant case, Sproqit has failed to meet its heavy burden of proving, by clear and convincing evidence, that Visto's infringement claims were objectively baseless within the meaning of § 285. Therefore, this is not an "exceptional case" for which fees may be awarded thereunder.

C. Discretion to Award Fees

Even if the Court were to deem this case exceptional, the decision whether or not to award attorney's fees under § 285 lies within the Court's discretion. *See Brooks*, 393 F.3d at 1382. In determining whether to award attorney's fees under § 285, a court considers such factors as "the closeness of the case, the tactics of counsel, the flagrant or good faith character of the parties' conduct, and any other factors contributing to imposition of punitive sanctions or to fair allocation of the burdens of litigation." *Perricone v. Medicis Pharm. Corp.*, 432 F.3d 1368, 1380-81 (Fed. Cir. 2005); *see also Serio-US Indus. v. Plastic Recovery Techs. Corp.*, 459 F.3d 1311, 1322 (Fed. Cir. 2006) (stating that "the denial of attorney fees is discretionary and 'permits the judge to weigh intangible as well as tangible factors,' including any 'factor[] whereby fee shifting may serve as an instrument of justice.'").

Here, even if it were ultimately concluded that Visto's claims of infringement were objectively baseless, at the very least that issue was "close." As noted above, the issues for claim construction were not easily resolved by plain language or prosecution history. The issues were difficult and imbued with ambiguity. The tactics of Visto's counsel were not egregious. For



1 example, although the Court rejected many of counsel's arguments, those arguments did not lack a  
2 factual and/or legal basis. *Cf.* Fed. R. Civ. P. 11(b). As for the conduct of Visto itself, that too was  
3 not egregious. Sproqit faults Visto for pursuing the case when it became evident early on that  
4 Sproqit's sales were minimal. Although Visto learned at the time of the preliminary injunction  
5 proceedings that Sproqit's sales were minimal, Visto had a basis to proceed with this case and seek,  
6 *inter alia*, prospective relief, because Sproqit was still in business and gave no indication it was  
7 giving up the business. Sproqit thus continued to pose a threat of ongoing and future infringement.  
8 Once it became clear that Sproqit had ceased doing business, Visto sought dismissal of the case on  
9 mootness grounds. Its attempt to end the case preceded commencement of the claims construction  
10 hearing.

11 The Court thus concludes that, even if Sproqit were correct and demonstrated that Visto's  
12 infringement claims were objectively baseless, this is not a case where the Court should exercise its  
13 discretion to grant fees under § 285. There has been no gross injustice to Sproqit warranting the  
14 exception remedy of shifting fees.

## 15 II. CONCLUSION

16 For the foregoing reasons, Sproqit's motion for fees is denied.

17 This order disposes of Docket No. 247. This order further disposes of Docket Nos. 254 and  
18 257.

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20 IT IS SO ORDERED.

21  
22 Dated: January 17, 2007

23   
24 EDWARD M. CHEN  
25 United States Magistrate Judge  
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